Sales Teams, Compensation Plans, and Driving Business

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A balanced and effective compensation plan is key to motivating your sales team, and a motivated sales team may be the difference in achieving new growth in this challenging economy. But different people want different things, so a starting point in designing such a plan is to talk with your sales people and understand what motivates them.

Some may be looking to pay for their kids' college education, others to purchase a retirement home or pay down credit cards, still others, the potential for promotion, other recognition or even time off.

It's difficult to design a compensation plan that addresses disparate personal factors, but you can get a sense of the financial challenges and other rewards your sales team have in mind, and reflect these in the plan you create.

Also, as reported in a recent article, a new study in the Harvard Business Review identifies three categories of sales people – laggards, average performers, and stars – and suggests that compensation plans should not necessarily treat all sales teams equally.

Laggards, the study suggests, need periodic incentives built into a compensation plan, rather than year end bonuses, to keep them on track.

Average performers thrive on multi-tiered performance targets that serve as stepping stones.

Sales stars will lose interest if they bump up against caps on commissions. These people need overachievement commissions that kick in after sales targets have been met. According to the article "[t]his keeps star sales people in the game longer, which is important because the fourth quarter is often when customers are most likely to buy."

Once a sales commission plan is drafted communication is key. You need to make sure your sales team has realistic expectations of outcomes. In addition, sales teams should understand how a commission plan operates, including the low and high end of potential earnings.

A new California law, effective January 1, 2013, will soon require that commission sales agreements between employers and employees must be in writing. Labor Code 2751 (a) provides:

"By January 1, 2013, whenever an employer enters into a contract of employment with an employee for services to be rendered within this state and the contemplated method of payment of the employee involves commissions, the contract shall be in writing and shall set forth the method by which the commissions shall be computed and paid."

The goal of every business should be to draft a compensation plan that drives sales and keeps your team motivated, while complying with local laws concerning discrimination and disparate treatment.
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